

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 /131 W
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FM AMCONSUL SURABAYA

TO SECSTATE WASHDC 1252

INFO /AMEMBASSY JAKARTA 5352

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

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E.O. 11652: N/A

TAGS: ENRG, ECON, ID, US

SUBJECT: UPDATE ON CITCO INDONESIA'S SITUATION

REF: SURABAYA 0232

1. ACCORDING TO CHARLES D. ZLOMKI, DRILLING AND PRODUCTION SUPER-INTENDENT FOR INDONESIA CITIES SERVICE, THE COMPANY IS CONTINUING TO PRODUCE OIL AT THE POLENG FIELD UNDER A 90-DAY CONTRACT EXTENSION NEGOTIATED WITH PERTAMINA. THIS IS THE FOURTH EXTENSION FOR CITIES SERVICE (CITCO), AND THERE MAY BE ADDITIONAL EXTENSIONS, IF CITCO DESIRES AND PERTAMINA AGREES. UNDER THE CURRENT ARRANGEMENT, CITCO IS RECEIVING NO INCOME FROM ITS POLENG OPERATION BUT IS BEING REIMBURSED FOR OPERATING EXPENSES ONLY. CITIES SERVICE IS CONTINUING UNDER THESE CONDITIONS SO IT CAN KEEP ITS PEOPLE--BOTH EXPATRIATES AND LOCALS--EMPLOYED IN INDONESIA IN THE EVENT THAT ANOTHER NEARBY FIELD TURNS OUT TO BE PROFITABLE.

2. THE OTHER DRILLING FIELD, CURRENTLY AN EXPLORATORY SITE, IS LOCATED 15 MILES SOUTHEAST OF THE POLENG FIELD AND
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2 MILES FROM THE NORTH SHORE OF MADURA. KNOWS AS JS19W1, THIS SITE RECENTLY INDICATED, DURING PRELIMINARY TESTS, A MAXIMUM OUTPUT OF 3,000 BARRELS/DAY. ZLOMKI SAYS THIS IS GOOD ONLY IF ADDITIONAL TESTING SHOWS SUFFICIENT RESERVES WARRANT ESTABLISHING A PERMANENT DRILLING OPERATION.

3. THE OTHER EXPLORATORY DRILLING OPERATION IN THE KANGEAN ISLAND

GROUP HAS BEEN UNSECCESFUL. THE FIRST DRILLING SITE--EAST OF SAUR ISLAND--PROVED TO BE A DRY HOLE, AND A SECOND PROSPECTIVE SITE IS NOT BEING DRILLED BECAUSE CITCO IS UNABLE TO FIND AN OPERATIONS PARTNER AND IS UNWILLING TO GO IT ALONE. ALL EXPLORATION EQUIPMENT HAS BEEN REMOVED FROM THE KANGEAN ISLAND AREA WITH ONLY THREE INDONESIAN TECHNICIANS REMAINING TO WATCH OVER THE CITIES SERVICE LANDING STRIP AND FIXED PROPERTY.

4. IT SEEMS PROBABLE THAT PERTAMINA HAS AGREED TO ALLOW CITCO TO CONTINUE THE POLENG OPERATION IN ORDER TO MAINTAIN THE COMPANY'S PRESENCE IN EAST JAVE AS LONG AS THERE EXISTS A POSSIBILITY OF FINDING A LUCRATIVE DRILLING SITE. IT SEEMS UNLIKELY, HOWEVER, THAT PERTAMINA WILL ALLOW THE CONTINUED FLARING OFF OF EXCESSIVE AMOUNTS OF GAS (SEE REFTTEL) AND WILL CLOSE DOWN THE POLENG FIELD UNTIL SUCH TIME AS IT IS ECONOMICALLY FEASIBLE FOR THE PETROKIMIA FERTILIZER PLANT TO TRAP AND TRANSPORT THE GAS FOR USE IN GRESIK.
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